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REVIEW OF THE IMPACT OF STRUCTURAL ADJUSTMENT PROGRAMMES ON FISCAL POLICIES IN SELECTED AFRICAN COUNTRIES

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Introduction

The crisis situation of the early 1980s compelled African governments to respond thereto under conditions which established new kind of dependent relationships with the western governments and the International Financial Institutions, particulary, the International Monetary Fund (IMF) and the World Bank. The international financial institutions imposed unavoidable conditionalities under which the African governments had to pursue the goals of the restoration of the real growth of their economies in other words, to embark on structural adjustment programmes as advocated by themselves. It is through such policy conditionalities that most structural adjustment programmes are being implemented.

Broadly, the structural adjustment as advocated by the IMF and the World Bank, seeks to restore growth and stability by recasting relative prices, domestic expenditures and the type and degree of state intervention in the economy. The Adjustment programmes represent continuous changes in a variety of policy parameters including; the exchange rate, the supply of credit, the tax regime and the price to producers of export commodities or the retail price of domestic food. Clearly missing from these policy parameters, is the mention of the social dimensions of the adjustment (the concern over the burdens of adjustment across the population groups as well as the sharing of the fruits of the restored growth). It stands to reason, therefore, that the policy variables for structural adjustment should equally focus attention on the social ramifications of the adjustment programmes. The paper discusses this issue in further details.

Also at the centre of attention is the issue of the impact of the structural adjustment programmes on the fiscal policies of the countries implementing the adjustment programmes. The central issue is the reconciliation of the objectives of the adjustment programmes with those of the fiscal regime in practice. The paper, therefore, assesses the reconciliatory implications of the aims of the structural adjustment programmes and those of the fiscal regime. The paper is developed into five sections. Section I deals with the review of the fiscal policy issues. Section II deals with the review of the structural adjustment programmes in selected African countries. section III deals with the experiences of some selected African countries under the structural adjustment programmes. Section IV deals with the impact of the structural adjustment Programmes on fiscal policy in selected African countries and Section V deals with summary of conclusions and suggestions.

Section I

Review of fiscal Policy issues

Historically, the tax systems of the African countries are the legacy of the colonial past. However, in response to post independence ambitious development objectives and the increasing systematic use of the development plans, there have been marked changes in the tax systems. But in general, the changes have not been occasioned by concrete reform processes. Instead, they have been brought about through the accretion of ad hoc measures responding to pressures

for revenue requirements to meet the expanding expenditure demands and, in certain cases, responding to other particular interests.

The emergency of the ad hoc approaches was also motivated by the fact that, the productive bases of the economies of the newly independent African countries were not appropriately structured and were largely characterized by levels of income as well as massive external dependence.

Their finance structures were fundamentally unsustainable on both the revenue and expenditure sides. The tax bases on which their revenue structures depended, could not be adequately exploited.

To improve those economies and also to increase the level of income, the African countries developed fiscal policies whose major objectives were to maintain a high level of employment and to promote, on the whole, the social welfare of the people. The promotion of the social welfare required stimulatory measures to increase social expenditure as means to mitigate the adverse impact of living standards.

The social welfare measures, had as an underlying aim the redistribution of income in favour of lower income group. In some cases, the social welfare oriented tax measures were intended to be fiscal contribution to incomes policy usually in the form of reductions in personal income tax rates. Indeed, the politics of distribution of income has dominated the African countries ever since independence.1/ Further, the fiscal policy in most african countries focused attention on the expansion of public sector investment, which, until recently, was not perceived as detrimental to the growth of the economy.

However, owing to the sustained poor performance of the public sector, the prevailing view is that large-scale absorption of the resources by the public sector is seen to have adverse long-term impact on economic performance. The view points to the fact that an effective way to cure economic malaise is to reduce the relative size of the public sector and government interference in the market mechanism. The growth of the public sector beyond unspecified limits leads to the diversion of resources from more productive use in the private sector and in this way, the overall economic growth suffers. Furthermore, the need to stabilize the economy, in particular, in terms of trade, called for action on the fiscal front. Indeed, during the high increases in energy prices as well as the ensuring world necession, the African countries were highly susceptible to external impulses. Fiscal policy was then considered to be the major instrument of economic stabilization and the policy response was generally to shift the fiscal

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1/ Structural Adjustment in Africa : by Bonnie K. Campbell and John LoxLey (eds.): Macmillan, London, 1989, reviewed by Diane Elson.

stance in a highly expansionary direction. As the economic activities of the African countries increased, there was a corresponding rise in the rate of inflation.

The concern over the inflation problem induced the governments of these countries to adopt stiffer fiscal stance and monetary policies. In the main, therefore, the fiscal policies of the African countries embraced the committal to the objective of stimulating employment and economic activities, the preservation of living standards and the control of inflation. These major fiscal policy aims require to be reviewed in the light of the changing economic and political conditions. Otherwise these fiscal policy measures, might, themselves, generate strong impediments to the expansion of the economy, the growth of the tax base equity and achievement of development objectives. Such occurrences are bound to create disturbing gaps between government expenditure and revenue.

The differences between government expenditure and revenue in the case of revenue boom, following, for examples the boom in export of particular agricultural or mineral products like coffee, cocoa, tin, copper etc, while they may appear as "lottery prize" to the government, they are decision-making problems a s regards public expenditure in the wake of the revenue boom period. For an example, should the government continue to spend in relation to permanent ; or should it raise the level of expenditure to current level of revenue? Literature on this issue suggest that the decision-maker ought to take into consideration the following factors; its expectation about the presence of the current level of revenue, the immediate investment opportunities for the transitory portion of current revenues, the political pressure on the government for additional spending and the government's perception of the political and economic benefits of additional spending.2/

Lessons of experience show that, some countries, faced with the commodity boom, sharply increase the current, and thus the more permanent, component of their public expenditure, perhaps under the mistaken impression that the commodity boom will be permanent. Such countries, for example, faced with temporary revenue boom expand public employment, raise wages, create new entitlements, increase the scope of subsidies etc, in short, they bring about permanent expenditures and when suddenly the level of the current boom revenue declines, there emerges huge fiscal disequilibrium. Even where the countries allocate the additional revenue to capital expenditure, that too, may be associated with inefficient projects as there may not be enough time to carry out detailed studies of the projects or there may not be enough managerial ability or skills to supervise them. Capital projects themselves may have recurrent components (i.e. roads built have to be repaired) which in turn, increase future public expenditure; or worse still, the commodity boom may vanish before the projects are completed.

2/ World Development: Vol. 10 number 12. December 1982. VITO TANZI-Fiscal Equilibrium in Developing countries. Pegon Press Ltd. New York.

At times, fiscal disequilibrium occurs not necessarily because of the public expenditures induced by commodity boom as discussed above, but because , for certain reasons, the government decides to increase the level of expenditure or because it is not able to control the expenditures of other various spending units; for example, where particular departments, ministries and public enterprises accumulate arrears and sooner or later the government has to come in to pay the accumulated areas. In some cases, the government may aim at promoting particular objectives, for example, generating employment, or redistribution of income etc. through additional expenditure. Indeed, in some countries, the governments have attempted to promote employment policies by requiring that public enterprises expand their employment beyond efficient levels. For example, they are required to hire high school or university graduates which requirement has the effect of increasing the costs of those enterprises. At the same time, prices of the products of those enterprises are never allowed to increase accordingly thus inevitably resulting to widening of the deficit with obvious budgetary consequences3/. Insulation of prices from increase in costs leads to fiscal disequilibrium.

Yet, again, through additional expenditure, the government may be trying to maintain the price of certain commodities consumed by the masses by subsidizing the supplies (producers importers etc). Additional expenditures brought about under these circumstances, are never influenced by structural or exogenous causes but are brought about by political and administrative considerations, yet they, too, have the effect of creating gaps between the expenditure and revenue which may necessitate deficit financing.

Still an alternative version of disequilibrium may come because of over-ambitious investment programmes by some public enterprises, coupled with an inability or an unwillingness on the part of governments to control their expenditures. In some countries these public enterprises have been almost totally free from financial controls and have engaged in borrowing , to an extent that at times could not fail to jeopardize their economic situation. In many cases, this borrowing has been from foreign sources; in other cases these enterprises have managed to get their funds directly from the monetary authorities at highly subsidized rates. In both of these cases, there could be considerable monetary expansion in the country without any corresponding increase in the size of the deficit of the central government. Therefore, the fiscal deficit, as normally measured, could at times, understate the inflationary impact of the public sector as a whole.

Fiscal disequilibrium may also be brought about by the worsening of the terms-of-trade scenario. This situation arises as a result of a drastic fall in the price of exported commodities, and is thus, the reverse of the export boom scenario. However, a more general situation common in recent years is associated with a drastic and possibly permanent increase in the price of some important imported commodity, such as oil. In such a situation, the increase in the price of the imported product should be passed through to the domestic consumers, thus leading

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3/ Ditto pg.1074.

to a reduction in their real incomes and, thus, expenditure; and the government itself should reduce the level of its real expenditure. Some countries have, however, prevented this pass-through and, in doing so, have contributed to the fiscal disequilibrium. This has happened, for example, when the government has decreased the taxes on the product in order to neutralize the real price increase for domestic consumers; or, when it has subsidized the domestic use by, say, providing budgetary transfers to the main users such as enterprises engaged in public transportation. Either the fall in taxes or the increase in expenditure caused by the subsidy has contributed to an enlargement of the fiscal deficit.

The above scenarios cover most of the essential elements that have brought about fiscal disequilibria in many countries. In a real-world situation, one may not be able to classify a country according to just one of those scenarios. One may find, rather, several of the factors described above all interacting and playing a role. A fiscal disequilibrium situation will often start with one main factor but then, after a while, it will become difficult to separate causes from effects or structural from political factors.

In connection with agricultural sector which is predominant in the African countries, not much progress has been made in formulating tax policies that would encourage the diversification of production or the commercialization of the activities in this sector. African governments tend to adopt rather cautions approaches to the taxation of agricultural income as well as agricultural land. One factor which makes it unattractive to tax this source is that, in general, the agricultural sector is characterized by low income levels and assets disparities. For example, the labour force in agriculture earns wages which often fall below the exemption threshold and thus attracting no tax. Tax shift from direct to indirect taxation for example, is sometimes resorted to. But not without caution since the taxes on consumer goods usually have adverse effects on consumption level of low-income households. In the case of assets, for example, land and credit facilities, only small proportion of farmers have access to arable land as well as access to credit facilities.

The disparities, therefore, offer very little opportunity for a relatively rapid increase in smallholder commercial production. The complexity of implementing taxation on land, has the consequence for the government's ability to mobilize resources for funding of the very agricultural and rural programmes. Increased production could be achieved perhaps, by allowing greater participation of small farmers and paying adequately high prices for their products. Therefore, there can be considered reasonably equitable and progressive taxation of the crop earnings. This would improve the resource mobilization while ensuring equitable growth and fostering growth linkages with the rest of the economy, a dynamism that still has less role to play in most African countries. However, some countries (Kenya) have, over the past, adopted policies which resulted in rapid and broad-based growth, in smallholder agriculture 4/such policies are commended as they guard against the blunders which often occur during export boom

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4/ Managing Agricultural Development in AFRICA-MADIA Discussion paper No. 9, 1989, by UMA LELE - World Bank, Washington D.C.

economy whereby the boom is accompanied by stagnating agricultural production, high rural emigration and high levels of food import.

The fiscal policy regarding the promotion of agricultural production is, to a great extent, influenced by the aggregate demand for the agricultural production is markedly influenced by the structure of demand. Aggregate demand for different agricultural products is, in turn, affected by total income available for food consumption, consumer tastes, as well as the location of consumer markets. The consumer markets are generally measured or located in terms of the patterns of income distribution. But the general low-income levels of consumer income in most African countries imply low domestic aggregate demand and consequently less encouraging to producers to supply the markets and hence less pressure for tax incentives to promote agricultural production for domestic demand . For export crop production, the incentives structure is determined by the world market demand and international prices.

If the world wide demand for the export commodities is very low, swelling up tax incentives for the promotion of the production of the export commodities may not be an economically sound fiscal stance. The crucial fiscal issue, therefore, is how best to distribute demand. This may call for sound government spending and investment decisions that should effectively distribute demand inter-sectoraly, between imports and domestically produced goods, between rural and urban areas, between geographic regions and between food producers and consumers. Through income policies, wage settlements, domination of the job market for certain skills, and geographic distribution of employment generating of direct and indirect expenditures, government policy will affect relative wages and incomes for different skills and regions; and ultimately the profile of food demand.5/

Section II

Review of Structural Adjustment Programmes in Selected African countries

The crisis situation in Africa over the last decade or so, has obliged the governments of these countries to adopt and implement largely 'cut and-dried' orthodox structural adjustment programmes often designed and supported by the international financial organisations, particularly from the western world. Whilst it is acceptable, in principle, that the stabilization and adjustment programmes are necessary, in the balance, their design and purpose do not comprehensively or fairly focus on all the interests that ought to be taken into account in the process of stabilization and adjustment. It is common cause that the theme in critiques of the

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5/ S.J. Scherr: Agriculture in an Export Boom Economy. A comparative analysis of Policy and Performance in Indonesia Metico and Nigeria- World Development Vol. 17 NO. 4 April 1989 (Pergamon Press , New York).

IMF and World Bank policies for stabilization and adjustment is that such policies undermine national economic integration and self-reliance by promoting the greater internationalisation of trade and capital flows and thus promoting the interests of capitalism at the expense of ordinary people of the Third World.

This view is evident from the developments 1989 whereby the structural adjustment programmes advocated by the western international financial organisations , in particular, the International Monetary Fund (IMF) and the World Bank came under attacks at both the national and international levels. At the national level, for example, the adjustment programmes as strategies for economic recovery, were challenged by the retired General Olusegun Obasanjo (former Head of State) in Nigeria. The General took a swipe at the adjustment programme under implementation and called for a reformed adjustment programme "with a human face".6/ At the international level, the IMF-World Bank supported structural adjustment programmes were confronted by the Economic Commission for Africa (ECA) on the very issue of the supposed beneficial effect of those adjustment programmes, For an example, the ECA strongly disagreed with the IMF and the World Bank on the impact of the adjustment programmes arguing that they had devastating human dimensions for the continent.7/

Other international agencies have also come to recognise 'the social costs of transition' predicted as an unavoidable part of the process of structural adjustment and economic reform under IMF and World Bank auspices. Not only has UNICEF made its view clear, in its report on' Adjustment with a Human Face' but in May 1988 a report published by the IMF itself recognised that poor people have been hurt by the policies it has pressed on Third World countries, such as devaluation and cuts in government spending. The report suggested that 'the more adjustment efforts give proper weight to social realities- especially the implications for the poorest-the more successful they are likely to be'8/. Some bilateral agencies clearly agree. At the beginning of April 1988, the USA for example signed an agreement with the Moroccan government for a food programme worth $60 million for the period 1987-89. The programme provided for the purchase of foodstuffs such as flour, wheat, edible oil and milk. A part of the sum financed 'social projects' through the Moroccan National Assistance and National Promotion.

The view contained in these developments is that greater emphasis should be laid upon the social-Dimensions of the structural adjustment programmes. For example, do these

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6/ Adebayo Olukoshi- crisis and Adjustment in the Nigerian Economy (JAD Publishers Limited) Lagos, Nigeria .

7/ Beyond Recovery: Economic Commission for Africa's Revised Perspectives Study of Africa's Development Prospects 1988-2008. United Nations Economic Commission for Africa: Addis Ababa, December, 1988.

8/ Financial Times May 1988.

adjustment measures improve the material well-being of the majority of the citizens of the African countries which have adopted and are implementing the programmes? To what extent are the vulnerable groups(the poor) protected under the programmes? Effective targeting of measures to protect vulnerable groups or to offset transitional costs is of significant consideration. The human aspects of the adjustment programmes ought, therefore, to address issues like the demand for the creation of jobs as against retrenchments, high cost of living, low wages, inflation etc.

Lessons of experience from African countries which have adopted and are implementing adjustment Programmes is that, the programmes often create labour redundancies at a faster rate than they can be absorbed or re-adapted into productive employment within the economy. As more (conditional) sectoral loans are contracted by the governments of the African countries undergoing stabilization and adjustment, more workers can be expected to lose jobs. The sectors of the economy which benefit from such loans are compelled to rationalize their services. They are also forced to increase the cost of their services. In both ways the workers are disadvantaged or made worse off; so that a situation emerges whereby structural adjustment programmes are regarded as socio-economic violence directed against the workers as well as other underprivileged classes in the country. Nigeria offers an immediate example of the adverse effects of the adjustment programmes on jobs when in 1989, the government, faced with tense labour-government confrontation over the administration's economic recovery programme, promised to create 62,000 more jobs through the Directorate of Employment. Ironically, in order to implement the adjustment programme, many workers were sacked in II River Basin authorities at the very time when government was expected to create 62 more jobs (ADEBAYO OLUKOSH,1991).

At the regional level, in the wake of the social ramifications of the adjustment programmes, there is rapid evolution in thinking about the design and implementation of structural adjustment that will ensure that the twin goals of sustained economic growth and poverty reduction can be attained as well as to reconcile what the people of the continent need or have come to expect, with what their respective countries can afford. While most African countries have adopted IMF and World Bank supported stabilization and structural adjustment programmes, these programmes on the whole, often lack the ability to grasp the political, social, cultural and economic realities of African countries. This view is best expressed in the Khartoum Declaration as follows:

> "These programmes are "incomplete because they are often implemented as if fiscal, trade and price balances are ends in themselves, and are virtually complete sets of means to production increases. Human condition imbalances, as related to employment, incomes, nutrition, health and education, do not receive equal priority in attention to macro-economic imbalances. They are too mechanistic being inadequately grounded in, or sensitive to specific national economic, human and cultural realities...(and) they are in too short a time perspective. Africa cannot wait for the attainment of external equilibrium and fiscal balance before seeking to improve the human condition, nor can

long-term human investment to strengthen the institutional, scientific, technical and productive capacity operating in environmental balance be postponed".9/

Further, on the social front, many African governments have enormously reduced their budgetary support to public social expenditure in respect of education, health and other social services and have channelled the resources saved from the expenditure cuts to debt-servicing in an attempt to cut budget deficit. The long-term effect of the reduction in investment on human resources, in particular is a progressive rate of illiteracy of Africa's population and declining skills capabilities. The consequence of that is that Africa will continue to slide into backwardness and marginalization and ultimately become a 'misfit' to the world society. It stands to reason, therefore, that such a situation ought to be arrested. The stabilization and adjustment programmes ought to be continuously refined in the light of the lessons of experience on the implementation of those which have been adapted. Only the stage by stage refinery of the stabilization and adjustment programmes can throw some light at the end of the tunnel. Indeed, the lessons of experience are already influencing such a trend as can be seen from the historical development of the adjustment programmes in Africa. For example, the initial round of adjustment programs in Africa, which occurred in 1981/83/84, concentrated mainly on restoring macro-economic balances following the imbalances which were earlier brought about by over expansionary monetary and public finance policies largely influenced by the commodity booms of the early 1970.

The second stage of the adjustment programmes which occurred during 1984-1986, retained most of the policy instruments of the earlier stage but added, thereon, improvement in resource allocation and growth. For example, Governments increasingly sought to change the structure of economic incentives through a comprehensive revision of trade and exchange rate policies as well as institutional reforms, especially in marketing. In addition, increased attention was paid to improving public-sector efficiency and the planning and implementation of public investments.

It was during the second generation of programmes that more attention was focused on the social dimensions of adjustment. Public policy turned to exploring ways to assist poor and vulnerable groups affected by the adjustment process, once it was recognized that the transition could well extend for a longer period of time than initially anticipated. Quite rightfully, African Governments and donors recognized that vulnerable groups could not wait for the benefits of adjustment to accrue to them and that they would need various kinds of assistance in the interim. Nonetheless, social dimensions programmes were seen as parallel activities to be undertaken along side of ongoing adjustment programmes. Moreover, emphasis of these early social dimensions projects and programmes was put on protecting poor and vulnerable groups during

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9/ United Nations Economic Commission for Africa - African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation. (AAF-SAP) (E/ECA/CM/6/Rev.3).

adjustment through welfare and consumption interventions, i.e, through mitigation, and less on promoting their integration into the newly emerging economic environment. Country examples of this second generation can be seen in Ghana, guinea-Bissau, and Senegal.10/

The third stage, which is also the current one, has carried the second stage further and in addition, it incorporates 'poverty reduction' as well as improved efficiency and economic growth. Poverty reduction addresses the poverty effects of alternative adjustment packages. Views are thus being sought for the agenda for the next stage of the adjustment programmes. In this connection; the thinking would appear to be along the lines of going a step further on poverty - oriented adjustments which would emphasize greater participation of the poor in the growth process.(the enhanced mass participation in decision-making and implementation of programmes).

However, whatever the considered options for the design of stabilization and adjustment programmes as well as policy instruments for their operationalization, the cornerstone for their success is the structure of the political institutions in Africa. The stabilization and adjustment programmes ought also to capture the political-oriented dimension. This dimension should envisage greater freedom of democracy greater freedom to participate in the developmental policy formulation process liberty to air the views and the privilege to be heard.11/ There is a direct link between the freedom of the people and their commitment to the process of economic recovery and transformation. The freedom to determine their leadership is the cornerstone for generating the sense of the masses' commitment to the programmes adapted by the leadership of their own making. The sense of commitment, in turn, breeds the 'will' for sacrifice in the process of recovery and transformation, which, in turn, minimizes the erosion of working confidence in the leadership.

10/ RAF/86/037/A/01/42- UNDP Regional Programme for Africa, Fourth Cycle: Assessment of Social Dimensions of Structural adjustment in Sub-Saharan Africa.

11/ E/ECA/CM.16/11- African Charter for Popular Participation in Development and Transformation (Arusha 1990). The charter was adopted at the International Conference on Popular Participation in the Recovery and Development Process in Africa held in Arusha United Republic of Tanzania during 12 to 16 February, 1990.

Section III

The Experiences of some selected African Countries under Structural Adjustment Programmes

1. Ghana

The adjustment programme started in Ghana in 1983. Initially the programme was negotiated with the International Monetary Fund (IMF) and was presented in the budget in April, 1983. The key aspects of the budget were (a) introduction of the system of surcharges and bonuses which imposed surcharges ranging from 750 per cent to 900 on the face value of imports and confined bonuses of the same magnitude on the face value of exports.

That in effect, established a dual exchange rate for the cedi and accounted for a massive devaluation of the cedi from US$1 to C2.75 to US$1 to C23.00 and US$1 to C30.00 respectively. (b) an increase in the cocoa producer price from C360 to C600 per load of 30kg. (c) increase in basic wage from C12.00 to C21.19 per day (d) increase of 100 per cent in the price of petrol, up to 1500 per cent in the price of medical care, and up to 400 per cent in the process of meat and some basic commodities. Particular emphasis was place on production. The centre price of the strategy to increase productivity was the mobilisation of all groups of people including processionals, students, workers and farmers."12/

The 1983 budget introduced a one-year economic stabilisation programme to be followed by a three-year Economic Recovery Programme (ERP) starting 1984 through 1986. The key to the recovery plan was an Export Rehabilitation Project covering cocoa, timber and mining. That included the World Bank assisted projects to rehabilitate two state-owned and 17 private sector timber firms, rehabilitate the TARKWA and Prestea gold mines; as well as the on-going cocoa replanting projects in Ashanti and the Eastern Region. The IMF was responsible, in collaboration with the Ghanian officials, for evolving exchange rate and trade policy, fiscal issues and domestic resource mobilisation and external debt management. Whilst the World Bank focused mainly upon incentive policies and public sector reform policies. Those covered trade liberalisation and cocoa sector policy, public expenditure targets public sector management and reform of parastatals. The overall programme objectives and sector policies were developed by IMF and World Bank staff in collaboration with officials from the Ministry of Finance and Economic Planning.

As regards the Economic Recovery Programme, it was developed along conventional form of market-oriented and supply side reforms involving deficit and tax reduction, production

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12/Bonnie K. Campbell and John LoxLey: Structural Adjustment in Africa. (The Macmillan Press Ltd, Houndmills, Basingstoke, Hempshire RG21 2xs and London.

incentives, trade liberalisation and exchange rate depreciation. Central to its attention were the following: Exchange Rate Reform, Price Decontrol and Reform, Monetary and Fiscal Policies, Export Sector Rehabilitation Programme, Public Sector Investment Programme and State Enterprise and public Sector Reform.

Exchange Rate Control

The creation and maintenance of a meaningful market-determined exchange rate was central to Ghana's adjustment Programme and the main aim being to unify the official and free market exchange rates for the cedi. To achieve that the cedi was devalued by over 99 per cent in relation to the US$, from C2.75 to C260 to one US$ between April 1983 and April 1988.

Price Decontrol and Reform

The changes in the exchange rate triggered upward revisions in import and export prices and were further supported by the abolition of state subsidies and price and distribution controls. The list of essential consumer items subject to price control were reduced from 23 to 17 in 1984 and then phased out altogether. The aim of exchange rate and price reforms was to shift incentives further from trading and rent seeking activities to production.

Monetary and Fiscal Policies

The Monetary and Fiscal Policies focused primarily upon increasing national savings rate(through substantially raising the interest rate and imposing strict credit ceilings) and the management of public sector finances(through dramatic reductions in current expenditure, discontinuation of public subsidies, repricing of government services, massive public sector entrenchment, relative increase in development expenditure as a proportion of total budget, the broadening of tax and revenue base and reduced reliance on the banking system.

Export Sector Rehabilitation

The Export Sector Rehabilitation Programme focused attention initially upon improvement of producer incentives and an export earning retention scheme that permitted certain exporters to retain a proportion of their foreign exchange proceeds. Also to improve the real returns to the producer, and raise the domestic price as a proportion of the world market, the producer price for cocoa was substantially raised for example, from C12,000 per tone in 1982-83, to C56,000 per tonne in 1985-86 and C140,000 per tonne in 1987-88.

Public Sector Investment Programme

The Public Sector Investment Programme aimed mainly at rehabilitating economic and social infrastructure, concentrating largely on repairs and improvements to roads, railway, ports and communication systems and leaving the private sector to spearhead the productive base.

State Enterprise and Public Sector Reform

The objectives of the reform were said to be threefold: firstly to reduce state involvement in the productive sector and the financial and managerial burden of the state enterprises; secondly to improve the efficiency, profitability and productivity of state enterprises; and thirdly to increase the managerial autonomy and accountability of state enterprises. Thirty state enterprises were to be liquidated, sold outright, or converted into joint ventures in the initial phase of the reform programme; those included both loss-making as well as profitable enterprises considered potentially attractive to investors. The remaining enterprises were to be opened to increased competition and market discipline, including competition from foreign firms through trade liberalisation where no domestic competitors existed; preferential access to foreign exchange and credit for state enterprises was to be abolished. Ten per cent of parastatal staff were to be dismissed in an initial phase of retrenchment between 1987 and 1989. A Structural Adjustment Institutional Support Project aimed to strengthen the planning, implementational, analytical and monitoring capabilities of the Ministry of Finance and Economic Planning and other key ministries and government agencies involved in structural adjustment work. A basic condition for assistance under that project was retrenchment of 15 000 civil servants (or 5 per cent of the civil service) annually between 1986 and 1988 and improvement of working conditions for the remainder, particularly at the top of the system.13/

The above policy instruments which were employed for the operationalization of the Structural Adjustment Programme as well as the Economic Recovery Programme (SAP/ERP) in Ghana, were introduced in the wake of devastations in the agricultural sector in 1983 caused mainly by severe drought and bushfires which destroyed food and cocoa production and brought about famine conditions. Nonetheless, there was still claim for significant successes in a number of areas.

II. IVORY COAST

The programme for Economic Corrective measures in the Ivory Coast started at the beginning of 1978 when the government adopted an initial financial programme covering the

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13/ Ibid fig.110.

period of April 1978 to March 1979. Then, in recognition that the necessary adjustments could only be accomplished in a middle - term time frame, the government called the International Monetary Fund (IMF) to endorse the carrying of its adjustment programme. Following that, an extended facility agreement was signed in January, of 1981 which was supplemented with renewed stand-by agreements14/. The Ivory Coast received assistance from the World Bank and the CCCE (Caisse Centrale de Cooperation Economique) for its adjustment programme along with the support of the IMF. Three structural adjustment loans to finance technical assistance and other new projects were financed by the World Bank.

Whilst no programme of structural adjustment was developed by the CCCE, it did significantly issue supplementary financing for development projects which constituted direct aid to public financing in order to enable the Ivory Coast to provide its share of the funding for projects which otherwise benefitted from external aid.

The use of the structural adjustment loans was concentrated on the following: (a) macroeconomic and financial management, (b) reorganisation of the public sector, (c) industrial policy, (d) agricultural policy and (e) Housing policy.

(a)Macro-economic and Financial Management

The primary aim of the macro-economic and financial management was to intensify measures to (i) improve the evaluation, programming, administration, follow-up and control of investment projects (ii) to recover the cost of investment and recurrent expenses in education, housing and urban transport, (iii) to initiate reforms in the civil service; and (iv) to strengthen the personnel and the tools available for macro-economic forecasting and financial management of economy.

(b) Reorganisation of the Public Sector

In line with the launching of tools and procedures for better financial management, emphasis was laid upon the need for extensive audit of the state corporations with a view to their reform and possible transfer of certain activities to the private sector.

14/ Ibid fig.137.

(c) Industrial Policy

Greater recognition was given to the industrial policy as the significant instrument to reform the system of incentives in order to restore and enhance the competitiveness of business and to promote the industrial base.

(d) Agricultural Policy

The agricultural policy was one of the principal aspect of the programme of structural adjustment lending. It pursued the profit terms of trade for agriculture and aimed at creating the environment which favoured the modernisation of agriculture and investment in that sector.

(e) Housing Policy

The primary aim of the housing policy was to cut the financial burden of this sector on public accounts. To achieve that, the following measures were adopted: (i) the establishing of the principle of shifting the largest part of the cost on to the user; (ii) the reorientation of public investment so as to leave construction the responsibility of the private sector; (iii) the reform of financial mechanism concerning housing (iv) the reform of public sector enterprise; (v) the progressive freeing of rents on housing owned by public enterprises and the transfer of a part of this housing to the private sector and (vi) the reduction of expenses resulting from the housing for civil servants.

The first structural adjustment loan(SAL) in 1981, emphasized on macro-economic and financial management, administrative reforms and restructuring of public enterprises. The second (SAL) in 1983, focused in greater depth on restructuring of public enterprises and the introduction of industrial policy; while the third SAL in 1986, was directed at perfecting industrial policy, pursuing the restructuring of public enterprises and development banks and implementing agricultural policy (prices, incentives, restructuring, modernisation and privatization).

The degree of the success of the above policy instruments varied. For example, in the case of the macro-economic policies, whilst there was claim for significant achievements, it was noted that the success resulting from macro-economic reforms was costly, fragile and limited in scope. In connection with the industrial policy, a number of promising signs appeared in the textile and wood industrial sector. Nonetheless, the level of investment remained weak. Finally, in connection with agricultural policy, the central issue was whether the reforms instituted were capable of stimulating the growth of Ivorian agriculture, of bringing about its diversification, of lessening its vulnerability relative to the world market prices of coffee and especially cocoa, and setting in motion a trend towards intensification. To address the issue, it was generally observed

that the restructuring of agricultural sector was a long-term process and that the direct effects of adjustments in the sector were bound to spread over time.

III. MADAGASCAR

Six stand-by agreements intended to support the structural adjustment programmes advocated by the International Monetary Fund (IMF) were signed between 1980-86. The first two were suspended in mid-term because the country failed to respect the performance criteria which were attached to the loans (in particular with respect toe the obligation tor educe deficits). The next three (from July 1982 onwards) were carried to terms. An additional one was approved in August 1986. The objectives of the structural adjustment programmes were the re-establishment of equilibria and solvency on the one hand, and economic recovery through liberalisation and restructuring of supply on the other . Those objectivés were thus of a dual nature.

The key measure which the IMF advocated in respect of the stand-by agreements providing loans to finance the implementation of the structural adjustment programmes included:

(a) Global strategies for reintroducing equilibrium;: restriction of money and credit; devaluation: institutionalisation of a flexible rate of exchange, subject to revision every trimester reduction of the deficit in public fiances which included reductions in the investment budget and a ceiling of salary increase; reduction of arrears due to foreign loans and a ceiling on loans; abolition of subsidies for consumer goods (such as rice).

(b) Increases in agricultural prices.

(c) Progressive liberalisation of industrial prices.

(d) Progressive liberalisation of exchange controls and of the system of currency allocation.

The World Bank which provided credit assistance to industry (CAI) and also credit assistance to agriculture (CASA), proposed a plan that would contribute to resolving crisis in Madagascar based on compliance with adjustment polices as advocated by the IMF and the World Bank. The plan envisaged the following:

(a) A vigorous increase in exports (4.1 per cent annually between 1985-90, 5.8 per cent annually from 1990-1995); principally as a result of the increase in agricultural exports following successful liberalisation of agriculture.

(b) A renewal of growth (3 per cent from 1985-90, 3.6 per cent subsequently) engendered by agricultural growth (3 per cent, 3.6 per cent) and industrial growth (4 per cent, 5.4 per cent).

(c) A reabsorption of the deficit in the balance of goods and services.

Table 1: The World Bank Scenario to Solve the Crisis

	Growth Rates(% per annum)			Share of GDP*(%)		
	1980-85	1985-90	1990-95	1985	1990	1995
Gross domestic product	- 0.9	3.0	3.6	100	100	100
Agriculture	2.3	3.0	3.6	42	42	42
Industry +	- 6.5	4.0	5.4	18	19	21
Other sectors	- 0.7	2.8	2.6	40	39	37
Consumption	- 0.6	2.9	2.8	91	90	87
Investment	- 9.0	1.5	4.7	14	13	13
Exports	- 6.9	4.1	5.8	15	17	19
Imports	- 15.1	2.1	2.6	20	20	19
Gross domestic savings	- 1.9	4.1	9.5	9	10	13
GDP,per capita	- 3.6	0.3	0.8	n.a	n.a	n.a

* In constant 1985 Prices
+ Includes Mining, Manufacturing, Construction, and Utilities

Source: Wold Bank: Country Economic Memorandum, March 1986, p 49.

In order to execute the plan, the World Bank advocated the following measures: increases in agricultural producer prices, devaluations, continuation of the process of liberalisation and deregulation, particularly with respect to exchange controls, commercialisation reform of the public sector (state corporations, banks) transportation and privatisation.

As a means to revitalise the economy, emphasis was laid upon better use of price incentives and a greater role given to market forces which were supported to stimulate the productive system that was considered, otherwise very much under-utilised. But the World Bank scenario was not without obstacles. For example, in the case of agriculture the irreversible ageing and deterioration of plants and plantations, particularly of coffee, affected recovery process. In the case of transportation, there was severe deterioration of the transport system including roads and fleet of trucks. Further, the country was experiencing marked degeneration

of commercialisation networks and progressive peasant withdrawal from the money economy. These factors had the effect of prolonging the anticipated results of the adjustment programmes.

The Impact of the Structural Adjustment Programmes on Fiscal Policy

Section IV

The impact of the structural adjustment programmes ought to be assessed against the background of the origins of the disequilibria in the economy of each individual country. The structural adjustment programmes are, but the responses to a country's socio-economic crisis. In spite of the fact that African countries inherited relatively similar economic structures at independence, and that consequently, the origins of the economic and financial crisis in these countries share many commonalities, that, itself, should not give rise to the assumption of the universality of the purpose or objectives of the structural adjustment programmes, whereby recommended solutions or policy responses in one country automatically apply to the other country.

The purpose of the structural adjustment programmes is to address country specific conditions at a given period of time. The measures adopted to achieve the objectives of the adjustment programmes should be determined by the characteristics of the origins of the crisis situation. It is, however, ironical that in general, the policy variables involved in the structural adjustment programmes as advocated by the IMF and World Bank, are broadly the same regardless of the country or government seeking assistance, only the details of adjustment vary.

In connection with the selected countries discussed above, the origins of the disequilibria or economic crisis within their economies may be briefly explained as follows:

Ghana

The decline in the domestic management of Ghana's economy was precipitated by the breakdown of the entire public infrastructure and transport sector which interrupted haulage to the points, an overvalued exchange rate which lowered domestic prices to cocoa producers and other exporters and encouraged smuggling and deterioration of productive assets and balance of payment problems which led to shortages of producer inputs and spare parts. Other factors specific to particular sectors included; in the case of cocoa, declining real producer prices and drastic changes in relativities between cocoa and other crops, encouraged a shift out of cocoa cultivation. In the case of mining industry, there were obsolete machinery, liquidity problems and indifferent management.

IVORY COAST

The origin of the disequilibria in the Ivorian economy was the deterioration in the balance of payments after 1978 as the consequence of the deterioration in the international economic environment (the second petroleum price hike and the decline of world market prices for primary resources). In the industrial sector, owing to rapid upsurge of import substitution the share of the industry to the Gross Domestic Product fell. As regards public investment, in the 1970s the country had experienced huge public spending. But when exports fell, public spending progressively dried off and thus affecting the general level of activity in the modern sector which resulted to the progressive exhaustion of the economic dynamism of the country.

MADAGASCAR

Madagascar is characterized by a very particular configuration of characteristics which are reflection of its situation as an island. The island is vast and mountainous; a geography which impedes transportation. The origins of the economic and financial crisis there which began in the early 1980s may be summarized as follows: the weakness of the trading economy (at independence the economy was structured around an economic de traite (colonial trading economy) based on the production and export of primary resources which were essentially agriculture); the underdeveloped state of the transportation and commercial networks, the weakness of productive investments and relatively low level of integration of the rural population to the market economy.

The measures that the Ghanian government undertook in response to the fiscal and balance of payments problems in the economy which related partly to the decline in export prices, included; domestic economic diversification and integration through rapid import-substitution industrialisation; emphasis on state-led accumulation channelled through a variety of mechanisms (taxation and reliance on short term foreign credits and deficit financing) and development of social and economic infrastructures. As was common with any developing country the economic and demographic trends reflect movement of labour as well as resources away from rural areas to urban areas thus causing relative shrinkage of agricultural population, proceeding in tandem with the expansion of urban activities.

The implication of such a trend is that fiscal policies tend to structure incentives away from production and toward exchange and rent generating activities. Since the adjustment programmes emphasized agricultural production, the fiscal policies were then restructured to encourage those activities. The policies to improve the incentives were primarily through unification of various exchange rate markets and maintenance of flexible exchange rate, higher cocoa producer prices and improvement in management and resource use in the public sector.

Since the launching of the Economic Recovery Programme, the core of the reforms was the real effective depreciation of the cedi by about 90% in around 1988. The government also

rationalized the tariff structure and substantially liberalized trade by eliminating most quantitative restrictions on imports and by progressively allowing imports to be financed through the foreign exchange auction. The cocoa producer price was increased substantially by about 2.5 times in real terms by 1988. For example, effective for the 1987/88, the cocoa producer price was raised by 65 per cent to C140,000 per metric ton. In late 1988, farmers were also paid bonuses on previous production, C500 per metric ton 1986/87 and C10,000 per metric ton for 1987/88. The impact of those price changes was to raise the farmers share of the world market.15/ There was also improvement in tax administration, which, together with the increases in petroleum taxes, contributed to stronger revenue performance. Further, in order to encourage the flow of additional resources through legal channels and to improve the operation of exchange system, particularly the process of obtaining small amounts of currency on a daily basis, as of February 1, 1988, Government permitted the establishment of foreign exchange bureaus, which had to report all sales and purchases of foreign exchange to the bank of Ghana. The restructuring of the basic institutions of the economy , particularly in the areas of import-export trade, tax and budgetary reform and the establishment of a sound macro-economic framework covering fiscal and monetary policies as well as prices and incomes policies with the objective of rationalizing production incentives, meant that the government was placing greater emphasis on rigorous adherence to financial discipline requiring proper complementarity between the restructuring of production and sound mobilisation and management of financial resources.

On the public expenditure side the government had two notable priorities for public expenditure. Those were (i) improvement in the allocation of operations and maintenance expenditures and the improvement in planning and implementation of public investment, thereby increasing returns on those expenditures. (ii) Economic Planning to undertake a study on recurrent expenditure norms. The study provided guidelines which were then used for the preparation of the national budget. The guidelines helped to ensure that all government critical services received adequate funding. On the overall, the public expenditure policy in Ghana emphasizes on stimulating the economy while clamping down on allocative inefficiencies. It should, however, be emphasized that successful implementation of structural adjustment requires more effective economic management. Relentless efforts, therefore, ought to be exerted in this direction in order to ensure that policy decisions are soundly coordinated and followed up fully.

In the case of the Ivory Coast, as was pointed out earlier, the economic disequilibrium occurred largely because of lack of coordinated overall control over public expenditures (both government and public enterprises), as well as control over foreign borrowing. Structural changes, therefore, focused more attention upon the question of policy controls over public investment and overall foreign borrowing by (1) the government (2) the public enterprises and (3) the private enterprises. The public investments and foreign borrowing because they were badly conceived and uncontrolled, proved to be largely inefficient and did not contribute to unblocking the bottlenecks in the economy. The emphasis of the measures for structural change

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15/ World Bank - Ghana - Structural Adjustment for Growth. January 23, 1989 (Report No. 7515 - GH.)

was on restructuring the budgetary expenditures for efficient resource allocation as well as the reform of the public sector . There was a need to improve the evaluation, programming, administration, follow-up and control of investment projects as well as the centralisation of financial adminstration with procedures permitting the ministry of Finance to follow up and control transaction of the public sector as whole. A further impact of the structural change was the devaluation of the country's currency in order to encourage agricultural exports. On the same not, fiscal measures were taken to provide incentives for producer prices. However, it should be observed that the achievements resulting from the corrective measures undertaken were of costly, fragile and limited nature.

In the case of Madagascar, the country experienced difficulty in responding to structural changes through fiscal front. Given the country's low level of income, increasing taxation is a difficult proposition; it is even more so, because nearly one third of revenues are obtained from export duties, which duties ought to be lowered to strengthen export incentives. Lowering export duties requires identification of alternative sources. Likewise, overtaxation of exports discourages production and long-term investment in agricultural crops for export. However, in the wake of essential expenditures under the recovery programme, emphasis laid upon measures to strengthen revenue assessment and collection, and, where possible, expand the tax base or raise tax rates to generate more receipts. The prospect for public domestic resource mobilisation, in particular, the expansion of the tax base, rely heavily on the improved performance of the public enterprises. In recognition of that, the country undertakes measures, on the basis of extensive study, to define the roles of public enterprises in the agricultural sector and to create appropriate management systems; some form of tightening of financial discipline and management.

Generally, the analysis of public finances in Madagascar is quite complicated as fiscal management is split among various departments, both in regard to revenue collection and expenditure. As regards the expenditure side, there were issues in the expenditure programming, relating to appropriate balances between current and capital expenditure on the one hand, and appropriate balances within each of these categories on the other.16/

Section V

CONCLUSION

By and large, African countries have undertaken positive steps to improve their economic policy environment as well as national economic management. Despite pressing financial problems confronting the African countries particularly the financial requirements for structural adjustment and transformation, there have been claims for improvements in economic growth,

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16/ World Bank: The Democratic Republic of Madagascar - Country Economic Memorandum March, 1986 - (Report No., 5996 - MAG).

though such improvements are commonly at the detriment of the vulnerable groups(the poor). Budgets have been largely restructured to encourage stimulation of the economies and effective financial discipline. Shifts have been made away from the traditional methods of expenditure towards the modern methods involving expenditure programming. Shifts have been made away from wasteful public investment towards productive public investment. Efforts are continually being made to improve the public sector performance through streamlining the sector and encouraging privatization.

There have been considerable shifts away from currency overvaluation towards currency flexibility, followed by improvement in incentives for agriculture crops for exports (increases in producer prices). There has been rapid surge of taxation philosophy that advocates shifts away from reliance on trade taxes towards intensified mobilization of domestic resources; emphasizing on indirect taxes. There has been an increasing awareness of the role of financial systems in economic recovery and development. There has been growing awareness of the narrowness of the agricultural base, both in terms of size and in relation to the range of commodities produced. There has been growing awareness that the low level of productivity in agriculture is a major cause for concern since the African countries depend so much on agriculture for mass employment, income, foreign exchange and government revenue. There has been growing recognition of the need to improve the management of the public service, to economically utilize human resources in general and to enhance the skills capabilities of women in particular, so as to give them the place they deserve in the Economic Recovery and Development.

While positive measures are being undertaken to translate the awareness into action, through, in particular, liberalization of the economy, flexibility in price control, privatization etc, in some countries there exist a number of legal texts governing marketing and pricing policies. These legal texts which used to apply in the pre-recovery period, cause confusion to the implementation of the stabilization and adjustment programmes. There is, therefore, a further need to review the existing market-oriented legislations in order to provide new legal pronouncements that will spell out in details, the pricing framework and methodology for other affected fields.

As for the successes and failures of the adjustment programmes, it is important to differentiate between responses to mid-term demands or crisis and the responses to long-term crisis. While there can be claims for success in the short-term, in the long-run, the adjustments may lead to progressively diminishing growth and increasingly worsening effects upon the vulnerable groups and thus widening the poverty gap instead of reducing it. It is essential, therefore, that the adjustment programmes tightly close any loopholes that may give rise to vicious cycles whereby every step to adjust leads to further socio-economic imbalances.

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EFFECTS OF THE ECONOMIC CRISIS ON TAX ADMINISTRATIONS IN AFRICAN COUNTRIES; CAMEROON EXPERIENCE

EFFECTS OF THE ECONOMIC CRISIS ON TAX ADMINISTRATIONS IN AFRICAN COUNTRIES; CAMEROON EXPERIENCE.

INTRODUCTION

The economic crisis that has been affecting African countries for a decade now, has been felt sharply in Cameroon ever since the 1985/1986 financial year. At the beginning of the 1980s, Cameroon's economy recorded sustained growth owing, generally, to the good prices paid for its main export crops and to a special fillip from the oil sector. During the same period, Cameroon recorded a high growth rate estimated at 8% per year in real terms as well as a comfortable economic performance based on annual growth rates which stood at 7% for investments, 16% for exports and 3% for consumption. These rates were among the highest. This tremendous growth enabled Cameroon to carry out major development projects and to make significant efforts to improve the people's well-being. Within this context, the taxation system in force was applied, harmoniously, to economic activities and revenue generated by the growth.

As from 1985/1986, world economic upheavals, due to the slump in world prices of the major export products such as oil, coffee, cocoa, cotton, have led to a drastic drop in national financial resources. This caused serious economic imbalances which resulted in a shortfall of 14% in the GNP in 1986/1987. The overall loss incurred from 1985/1986 to 1989/1990 was estimated at CFA francs 924,000 million. This loss was accompanied by the worsening trade terms which affected the import/export balance of goods and services, thereby exerting an adverse impact on State revenue, households and enterprises.

Against this background, Government undertook, as from the 1987/1988 financial year, reforms to reduce the State's lifestyle. At its request, the international financial community came in to support the reforms. A confirmation agreement was thus concluded with the International Monetary Fund in September 1988, and this was followed by the rescheduling of its external debts by the Paris Club. A structural adjustment programme, supported by the World Bank and the African Development Bank, was also adopted. A second confirmation agreement is in the process of being signed with the IMF, following its approval of Cameroon's letter of intent.

Indeed, the already undertaken or planned structural reforms affect almost all sectors of activities, but then more emphasis has been laid on certain aspects of the programme: streamlining of public finances, rehabilitation of enterprises, recovery of economic activities. The streamlining of public finances and the recovery of economic activities fall, more particularly, within the ambit of the tax administration. The objective to increase public resources in order to cover controlled and stabilized public spending and to give a fresh thrust to economic activities, has led the Government to look for an appropriate taxation system which combines budgetary measures and tax incentives towards economic recovery. These missions which, at first glance, seem contradictory and which have been pursued since the 1988/89 financial year,

require, for their full success, support and the restructuring of tax administrations in order to ensure better economic performance.

I. BUDGETARY MEASURES.

Adapting the tax system to the persistent crisis has led to the adoption of budgetary measures. The aim was not to change the taxation system or the structure of existing taxes. Rather, instead of creating new taxes which could further worsen an already tense situation, Government decided to effect changes designed to increase non-petroleum revenue. intensify their collection and fight against fraud and tax evasion.

A. Increase in non-petroleum tax revenue

The objective to increase tax revenue falls within the dual effort to increase and widen the tax fabric.

1. Assessment of potential tax payers

A given amount of tax revenue can only be expected when there is a relatively precise idea about the number of taxpayers, the taxable product and the paying capacity of every person. This information can only be got through an assessment of tax payers. The empirical method, used in the past, to collect poll tax is no longer efficient today. The door-to-door assessment of tax payers is also tedious and uncertain. The responsibility to collect taxes may greatly outweigh the expected results, moreso as the survey plan of the country is still under preparation. There are attempts to harmonize the present methods to identify taxpayers through the use of the National Social Insurance Fund number, the taxpayer's number, business registration number, importer's number,etc.... The objective is to establish a single identifying method which guarantees optimum assessment of taxpayers.

But then, this method presupposes that all the taxpayers are found in the formal sector which, unfortunately, is not always the case. Due to the crisis, most of them resort to the subterranean economy.

2. Tax base broadening

Broadening of the tax base completes and corrects certain deficiencies in the assessment of taxpayers. It should be understood as the systematic search for the assessed or unassessed taxable product. The objective here is to forage in the non-tax paying areas for potential taxpayers who may be hiding there. A good number of them living in these areas have not been assessed. One of the measures taken by the Tax Department is to spot out the businesses as they are being set up and to establish corresponding business licences (small concerns, games....). Generally, this category of taxpayers is found in the non-structured sector, also known as the informal sector. Business licences have been established in such a way that each activity,no

matter its size, is levied a tax. What remains now is to ensure that each person involved in a business pays the corresponding tax. It is not easy to assess the very mobile illicit street vendors.

Broadening the tax bracket also means a reduction in tax exemptions granted. These exemptions are granted by law. The relating provisions are provided for in the General Tax Code and the Investment Code. But then, there are internal and external constraints to the reduction of their scope of application.

The internal constraints result from the attitude of taxpayers who, because they are used to exemptions, and, above all, to deviations caused by the tax system applied to public tenders, exert pressure so as to preserve their advantages. When bilateral or multilateral funding agencies provide in loan agreements that loans are not meant to finance taxes, successful bidders interpret this to mean that tenders are tax free, and hence exempt them not only from the payment of budgeted taxes stipulated by the funding bodies (internal turnover tax, customs duties on equipment and materials) but also from income tax levied on them as a result of profits accruing from the execution of tenders. The tax administration is striving to limit exemptions only to those taxes that influence market prices with the exception of income taxes.

External constraints, on the other hand, are inherent in our membership of the Customs and Economic Union of Central African States (UDEAC) which compels us to apply the harmonized tax system. Act 13/65/UDEAC/35 of the Union provides the list of customs duties exemptions. Cameroon can not, unilaterally, decide to review these exemptions. However, measures have been taken with the Union's highest authorities to cause the revision of this Act.

B. Improvement in tax collection

Tax base operations have just been intensified. But then, huge tax issues that have not been collected in the same proportions do not increase revenue. That is why bolder measures have been taken to improve tax collection. As a general rule, taxes are collected by way of roll. However, certain taxes are either deducted at source or paid voluntarily. Those deducted at source are the pay-as-you-earn tax, and the real estate capital tax defrayed when dividends, interests and royalties are paid. Taxes paid voluntarily by the taxpayer without waiting for regularization are the tax on industrial and commercial profits (TICP), company tax and the internal turnover tax (ITT). Despite the fact that these measures have been firmly established, Government has deemed it necessary to introduce other taxes in order to regularly fill State coffers and to spot out certain taxpayers.

1. Comprehensive business licence

The comprehensive business licence has been existing for long. It simplifies the payment of taxes by small businesses as it combines certain taxes amongst which are the TICP fixed sum and the ITT fixed sum. It is paid in full for concerns whose turnover does not exceed CFA francs 10,000,000 for trade and 5,000,000 for non-commercial profits (NCP). Above these

amounts, the taxpayers are expected to negotiate their fixed sum when their turnover does not exceed 60,000,000 for traders and 20,000,000 for non-commercial professions.

The recently adopted measures to improve the collection process covers the TICP fixed sum on business licence paid by taxpayers whose turnover reaches the limit of the estimated sum. But then, this licence is not paid in full. The taxpayers in question are expected to fill tax returns. The tax paid on the licence is deducted from the tax due. This also applies to the ITT fixed sum on passenger buses and taxis, especially, if the objective elements make it possible to establish a turnover more substantial than that used in determining the fixed sum.

2. 1% purchase tax

The one percent tax on purchases is not a new tax. It is an advance payment on income tax. Indeed, it is a payment on tax meant to ensure that money enters the Treasury on a regular basis. As a matter of fact, it is paid on all purchases as the economic activities progress. These purchases are resold purchases such as those made from industrialists, importers, wholesalers, forest exploiters. Purchases made by the State, public communities and persons living abroad are exempted from this tax. Also exempted are purchases meant for final consumption.

This measure, during the 1990/91 financial year, brought in 2,562,290,756 francs. Its low output is due to its new and experimental nature, and implementation difficulties. It should be mentioned, under these difficulties, that if persons legally liable to pay taxes, deduct the tax when purchases are made and pay it to the treasury as required, taxpayers who are expected to defray the deducted amounts, consider it as a tax to be recovered and included in their prices even though the law forbids it. Information seminars have been organized to redress the situation.

On the other hand, this measure was meant to flush out delinquent taxpayers hiding in the informal sector, and to discourage those who consider themselves exempted from declaring their income. Everyone could recover the levy, provided he declares his income. It has not yet been established that tax declarations have increased as a result of this measure. However, the measure is potentially profitable.

1. 20% deduction on rents.

The tax fraud committed by most landlords is responsible for the 20% reduction on rents, besides the objective to improve the collection process. This deduction is operated on all types of rents, for instance, the hiring of buildings, industrial and commercial facilities, staff and goods....The measure has angered certain taxpayers flushed out as well as those who feel they are exempted in various capacities even though the law has only exempted rents owed the State and public communities. Rents must be paid by independent persons since they are used to deducting and paying in the tax using the information form on employed staff (DIPE). Salaried

employees can not therefore deduct this tax on rents they pay to their landlords. In 1990/1991, this measure brought in CFA francs 1,342,304,396.

Combatting fraud and tax evasion.

The constant search to increase tax revenue calls for a strict control of tax declarations filled out by taxpayers. Tax fraud like tax evasion, defeats the principle of fair assessment. Causes of fraud are found not only in the deliberate intentions of certain dubious taxpayers but also in the complexity of tax documents. Thus, for the past three years, the tax office has tried, better than before, to simplify taxpayers' obligations, to clarify tax texts and to step up controls.

1. Simplification of taxpayers' obligations.

The ring of basic objectives that any good tax system must pursue and which according to Adam Smith includes : justice (so as to ensure fair assessment), certainty (in a bid to avoid arbitrary tax establishment), economy (so as to obtain a high output at the least cost), convenience (in order to simplify taxpayers' obligations), reveals that most of the tax fraud and evasion stem from the non-simplification of taxpayers' obligations. The more a text is unclear, the more it lends itself to confusion, and the more obligations imposed on the taxpayers, the higher the chances for fraud. The recent finance laws have made several amendments to the General Tax Code. The aim is to reduce taxpayers' obligations. The latest, i.e. the 1990/1991 finance law, exempted enterprises from paying taxes on small equipment and tools costing less than CFA francs 200,000 previously immobilized and written off.

2. Clarification of texts.

Combatting tax evasion requires that tax texts be clarified so as to avoid confusion in their interpretation. Circulars have been issued in this respect. This is in addition to answers to written questions from taxpayers. But the most important work was done through legislative provisions. The 1991/1992 finance law has, recently, further clarified the method of assessment based on external signs of wealth. This measure dates as far back as 1975, but owing to its imprecision, it has not been possible so far to apply it to taxpayers whose lifestyle is out of proportion with their declared income. From now on, in order to effectively combat fraud by such taxpayers, the legislator has provided the tax office with reference elements and an appropriate scale meant to establish the automatic taxation provided for in this area.

3. Control

The repressive stage of fraud and tax evasion consists in controlling tax declarations. Each year, a verification programme is established to check, on the basis of documents or on the spot, taxpayers approved per sector of activity. Since the auditing of accounts often entails a high output, it deters taxpayers who are, normally, very careful, except when they aim to exploit a deficient law or to experiment a new type of fraud. Government has set up a National Company

Auditing Brigade comprising 30 auditors, and provincial brigades of auditors established according to the tax- paying strength of each province. A National Service Control Brigade corrects the omissions and errors made by the service. This arsenal of measures and the use of these resources obviously prevent and repress fraud and also positively contribute to increase tax revenue.

II. ECONOMIC RECOVERY INCENTIVES.

The structural adjustment programme first seeks to stabilize public finances by reducing public spending and increasing public funds, and then to revamp economic activities. In this respect, the role of the Tax Administration is not limited to building up domestic savings, mobilized to promote the approved programme of activities, but also and above all, to provide incentives expected to revitalize economic activities. Legislative provisions have been taken to provide the country with an appropriate Investment Code, thereby completing the General Tax Code which was, itself, adapted, in some of its provisions, by the recent finance laws.

Investment Code.

The new Investment Code was promulgated by Ordinance No.90/007 of 8 November, 1990. It meets Cameroon's current economic context since it provides incentives and also guarantees the State minimum tax revenue.

1. General presentation

The objective of the new Investment Code is to encourage and promote productive investments in Cameroon. Indeed, it seeks to encourage and develop economic activities geared towards priority development of natural resources, the creation of new jobs, the production of competitive goods and services for domestic consumption and export and increased exportation of manufactured products; the transfer and adoption of appropriate technology; environmental protection and improvement of the quality of life in the rural and urban areas.

It comprises five special schedules:

- for the creation of new enterprises:

  (a) the basic schedule
  (b) the small-and medium-sized enterprises schedule
  (c) the strategic enterprises schedule

- for the creation of exclusively export-oriented enterprises: the export processing zone schedule

- for the existing operating enterprises: the reinvestment schedule.

2. Incentives.

Incentives are granted depending on the special schedule requested and the set objectives.

(a) Promotion of exports.

In order to promote exports out of the free trade zone, enterprises whose finished or semi-finished products are manufactured in Cameroon for export, are exempted from export duty, insurance and transport tax on these products. Furthermore, any properly established enterprise that exports part or all of its industrial products, is granted export incentives in the form of a reduction in its taxable income of a non-continuable amount equal to 5% of FOB value of exports of finished and semi-finished products.

Enterprises that fall under the industrial estate schedule are exempted from duties and taxes on imports and exports and are governed by a special schedule, particularly, as concerns the taxation of their profits and expatriate salaried employees. This incentive is meant to increase investments and net external assets through increased exports.

(b) Development of domestic natural resources.

With regard to the development of domestic natural resources, the use of local inputs in the production process is exempted from duties and taxes on such inputs. They are, however, subject to customs duties and taxes when they are imported.

3. Guaranteed tax revenue.

The objective of the new Investment Code is to reduce tax exemptions and to limit them in time. Previously, approval under one of the Code's schedules entailed an automatic approval under a special production schedule that provides exemption from duties and taxes on raw materials and packaging used, be they imported or bought locally. Today, a 15% import duty is levied on imported raw materials and packaging. The duration for limiting exemptions in time has been reduced. But the more important innovation is the establishment stage which lasts for three to five years. However, the enterprise cautions that if commitments made are not fulfilled, the previously exempted duties would be repeated.

B. General Tax Code.

Measures taken to revamp economic activities in the various finance laws starting as from 1989/90 financial year, seek to attract new investments in the production sector. Indeed, they are meant to encourage economic operators to inject fresh funds into the economy either by creating new enterprises, buying up rehabilitated enterprises or by reinvesting profits made.

Other additional measures taken are designed to remove certain obstacles to the investment process.

A. Encouraging new investments.

Three major measures have been taken to encourage new investments, namely, measures in favour of new enterprises, measures to facilitate the repurchase of enterprises facing difficulties and the revision of the system of reinvesting profits.

1. Measures in favour of new enterprises.

Enterprises set up within the stabilization plan, and other new enterprises, benefit from measures adopted in favour of new enterprises provided for in the 1989/90 and 1990/91 financial years.

(a) Enterprises created within the stabilization plan.

These are new enterprises established from 1 July 1989 to 30 June 1993. The new enterprise must carry out a new economic activity. Here, the new economic activity should mean an activity that had not existed before as well as the extension of a current programme. Such an activity should be in the industrial, agricultural, forest or mining sectors.The newness of investments is appreciated in relation to the date of the use and not in relation to the first registration of fixed investment as property of the enterprise. Finally, the minimum volume of investments has been established at CFA francs twenty-five (25) million.

Advantages granted include a 50% tax reduction on declared profits during the first three years of activity, and an exceptional redemption of fixed assets. In this respect, a coefficient from 1.5 to 2, depending on the case, is applied to the legal fixed investment redemption rate during the first three years of activity.

(b) Other new enterprises.

Generally, with the exception of consultancies and public works enterprises, any new enterprise is exempted from paying the minimum 1% turnover tax due as company tax or the income tax of individuals (TICP, AP ,NCP). The 1990/ 1991 finance law reduced this minimum payment by 50% for the third and fourth financial years whereas the enterprise is expected to pay it at the rate of 1%. This also applies to the fixed minimum tax of CFA francs 600,000 plus a surtax, expected to be paid by any company or community levied a company tax, whether it is exempted or not from paying the minimum tax. Its amount is reduced by half from the first to fourth year.

1. Rehabilitation of enterprises facing difficulties.

An enterprise facing difficulties, refers to any enterprise that has lost two-thirds of its registered capital. Individual and corporate bodies that buy up such enterprises in the industrial,

agricultural, forest or mining sectors, between 1 July 1989 and 30 June 1991, are granted special tax benefits

(a) Repurchase conditions.

The enterprise facing difficulties must have existed for at least five years. Its rehabilitation must be through within 12 months following the repurchase option. The buyer must present a rehabilitation plan specifying: how the operation is to be financed; an estimated operational account; the set objectives as well as their accomplishment time-limit; a regular and complete account; the complete list of future de jure or de facto managers as well as that of persons who have held similar posts in the company facing difficulties during the five years preceding the rehabilitation process.

(b) Granted tax benefits.

The new assets of repurchased enterprises benefit from an exceptional redemption; they are redeemed at a legal coefficient rate of from 1.5 to 2 depending on the case. A 50% tax reduction on declared profits is granted for the three years following the repurchase.

3. Tax relief on reinvested profits

The General Tax Code has provisions on the reinvestment of profits. These measures which were more restrictive before the 1990/1991 finance law, did not grant treasury preferential rights in the event of reinvestment. The new provisions grant a net gain in tax, through a tax reduction equal to 50% of the declared profit, on the basis of 50% of the reinvestment made.

The amount to be reinvested should not be lower than five million CFA francs. Furthermore, it is no longer necessary to wait for the authorization of the Minister of Finance before reinvesting. Once the reinvestment has been made, the economic operator deducts the tax, and later requests the Director of Taxes to regularize his situation when he declares his income.

III. RESTRUCTURING OF TAX ADMINISTRATIONS.

All tax policies implemented so as to combat the economic crisis, and to revamp economic activities, can only succeed when there is a good tax administration. Indeed, an efficient administration succeeds in its assigned mission when it has the means and the will. Computerized tax management designed to increase efficiency and output, constitutes the main objective of the restructuring of the tax administration by the public authorities.

A. Reorganization of tax administrations

Tax administrations in Cameroon fall under several departments, some times under several ministries. The Departments of Taxation and Registration, Stamp Duty and Trusteeship

fall under the Ministry of Finance while the Departments of Surveys and Customs fall under the Ministry of Town Planning and Housing. Due to the economic crisis, these various services have just been restructured in a bid to integrate them or to ensure greater cooperation amongst them.

1. Merger of the Departments of Taxation and Registration.

The Department of Taxation and the Department of Registration, Stamp Duty and Trusteeship were merged by the decree of 18 December 1991. Thus,this is a recent development. It should be pointed out that these two Departments had similar structures, hence there was duplication at all levels: officials performing the same functions; many taxpayers' files treated at tax base services; discordant tax policies. Today, not only has a single leadership been established but also, a single file has been open for each taxpayer. This thus eliminates administrative bottlenecks in the event of checks, and dispersed information on taxation.

Revision of the organization chart of the new Department of Taxation has also made it possible to better accomplish the mission assigned to taxation. The structures are more efficient within blocs of authority, thereby giving more responsibility to those in charge. The tax office has now been given more powers. Henceforth, it collects certain indirect or voluntarily paid taxes. With regard to career profile, the new organization chart provides more incentives to employees who can now make a career either within a specialized bloc (tax base services, services control corps, enterprises control corps, legislation and litigation services) or from one bloc to another. Such incentives were absent in the previously established organization charts.

2. Cooperation with other tax administrations.

The Departments of Customs and Survey are still attached to the Ministry of Town Planning and Housing. However, they cooperate closely with the Department of Taxation in order to ensure an efficient tax management. The management of land certificates by the Department of Lands has now been computerized. Registration services can access it to cross-check and to search for deficiencies in real estate transfers. The cadastral plan of the main towns is being finalized. One of the objectives of this plan is to establish a tax map in order to ensure a better location of persons and goods. Structurally, a real estate taxation Sub-Division has just been created in the new organization chart of the Taxation Department to coordinate,inter alia, the activities of the various tax administrations. With respect to the taxation of forest activities, the Taxation Department assists the Forestry Department attached to the Ministry of Agriculture, to revise, on the initiative of the World Bank, the tax system applied to forests and fishing.

3. PAAFIC support

The Cameroon Financial Administrations Support Project (PAAFIC) was initiated by French Cooperation in Cameroon. It falls within the structural adjustment programme

implemented by Cameroon authorities to combat the economic and financial crisis. Its aim is to contribute to restore the major macro-economic balances. This programme requires some restructuring, some aspects of which have been undertaken while others are in progress.

(a) Achievements

Since the objective is to adapt the financial apparatus to the current constraints and to establish the streamlining of the State's financial accounts on sound and solid bases, promoters of the project have carried out auditing missions on the functioning of Cameroon's financial services. Their recommendations have been taken into account to a large extent, and this has led to the restructuring of the Ministry of Finance, particularly, the Treasury, Customs and Taxation Departments. The services have been organized at the statutory level. What remains now is to appoint the right men to have them start functioning.

Procedurally, each Department has its own internal procedures. The various Departments of the Ministry of Finance also hold coordination meetings. This means that vertical and horizontal coordination will have to be improved according to the project recommendations, so as to end the malfunctioning noticed.

(b) Current achievements

Conversely, the improvement module for human and material resources management is being realized. It was noticed that certain sectors were over-staffed and others understaffed. Optimum management of the staff has been undertaken by the Ministry of Public Service and State Control which seeks to ensure a better geographical distribution of the staff, and to make an exhaustive inventory of jobs and qualifications before the recommended retrenchments are carried out. Staff training remains a current objective i.e. the initial training of operational staff (categories C and D) since they are not trained, continuous training of senior staff, and the training of trainers. As regards the Taxation Department, the new structure improves the method of training. But then, technical assistance is still necessary for the training of trainers, especially, following the establishment of the value added tax (VAT).

The financial component is also being realized. The report revealed that the financial services lacked material means. The services should be equipped so as to bring the administration closer to the taxpayer. The patrol boats acquired provide the Customs services with an efficient means to combat smuggling. The geographical establishment of taxation centres in Yaounde and Douala, the extension of the TRINITY project in Douala, the purchase of cars for the Chiefs of Divisional Taxation Centres for a better control of their tax territory, caused the allocation of funds to the Taxation Department. Generally, funds mobilized as the project progresses cover service needs in furniture, administrative supplies, computers, service equipment, repairs and renovation of buildings, staff training, and support mission to the project.

B. Computerized tax management

The mechanized management of taxes dates as far back as 1966. Index cards established manually by the tax base services are put on diskette at the Department of Taxation and sent to CENADI, the body charged with computerized management, for the publication of rolls, notifications and reimbursement advice. This system which has been responsible for the late publication of notifications, and tax collections, as well as the many errors noticed, has just been replaced by a more efficient system i.e. the computerized processing of State duties and taxes (TRINITY).

The TRINITY project is an integrated project that merges the new Taxation Department and the Treasury Department. The main objective of this merger is to increase tax revenue by simplifying work, reducing fraud and improving the quantity and quality of the control of enterprises and services.

1. Simplification of work.

The computer does the simple jobs, thereby freeing employees from repetitive and routine operations. The payment of taxes, the application of penalties, the publication of follow-up letters, payment certificates (licences, taxation advice) as well as refunds, rolls and various quietuses, are now on handled by the computer. The central and provincial services are informed of the activities and output of the decentralized units through a direct link. At the moment, this is the case with the Centre Province in Yaounde and, soon, the same will apply to the Littoral Province in Douala. The other provinces are waiting to be hooked up with TRINITY.

2. Follow-up of taxpayers

It will soon be possible to manage all taxpayers in an exhaustive manner. The principle of a single identifying method has been adopted since the taxpayer's number given by the Taxation Department is valid for all commercial and civil transactions carried out by the taxpayer (real estate transfer, purchases from enterprises with computerized services, importation, settlement and payment of bills by the Ministry of Finance,...) The single identifying method makes it possible to keep one account for each taxpayer showing his tax debts, his successive payments and all information gathered on him. But the administrations concerned have not yet agreed on the date this identifying method should effectively start to apply.

3. Effectiveness.

The time between tax issue and collection has now been shortened. Previously, the preparation of index cards for tax reports, data capture on diskette, the publication of rolls, their certification and the dispatch of notifications to taxpayers took two or more years. It was usually noticed at the time taxes were due, that either the taxpayer or the taxable product was reported missing, hence the huge amounts to be collected. Today, the processing of tax returns leads to

the immediate publication of the taxation advice which usually mentions when taxes are due. Even voluntary payments are subject to the issue of a receipt. After payment, the computer issues a receipt, thereby ending the practice of parallel receipt issues which is inimical to the Treasury. Finally, the TRINITY system is able to sort out the accounts audit files by classifying the enterprises according to the sector of activity, turnover or declared profits.

CONCLUSION.

Cameroon's tax administrations have been adapted to the economic crisis besetting the country since 1985/1986. During 1987/1988, serious reflection and efforts led to the adoption of a national recovery plan to combat the economic crisis. The international financial community and bilateral cooperation which have appreciated these efforts, have given financial support to this plan in order to restore the macro-economic balances and to put a further spin on economic growth. The restructuring of the whole economic apparatus, was also extended to the tax administrations which have been requested to increase tax revenue and provide tax incentives in view of economic recovery. The challenge will be met insafar as the international community still has confidence in Cameroon.

The PAAFIC project has come to support the efforts and sacrifices made by Cameroonians, for it should be underscored that tax administrations can only achieve their objectives when they have the means. As a matter of fact, the project proposes structural reforms and makes available to the financial administrations, the funding needed to endow them with the means. The structural adjustment programme, financing of the social dimension of adjustment and bilateral financial assistance, including PAAFIC, are efficient cooperation instruments for combatting the economic crisis and for adapting the tax system to its assigned mission within this programme.

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THE IMPACT OF THE ECONOMIC CRISIS ON TAX ADMINISTRATIONS IN AFRICAN COUNTRIES: (The Case of Nigeria)[1/]

June 1992

1/ A Country Paper presented by the representative of Nigeria at the Technical Conference

Introduction

A crisis can be defined as a problematic situation which disrupts the achievement of personal, group, corporate or national goals. It is a deciding moment, a turning point, a time of great danger or suspense. simply put, a crisis is a deviation from what is desirable. From this definition, one can take economic crisis to mean a deviation from what is desirable in the production, distribution and consumption of goods and services in a given economy.

Economic crisis or problems arise because in every community or country different people have different needs and therefore desire different goods or services while there do not exist enough resources to satisfy all these wants.

Economic problems also exist because of the need to choose between alternative methods of doing the same thing or rendering the same service. Other problems come from unemployment which, if it lasts long where a large number of people is involved, may lead to social upheavals. The distribution of goods and services and problems of economic growth in the economy are issues which cause crises if not properly handled.

Definitely, economic problems or crises will differ from one country to another, since there are differences in geography, people and socio-economic and political environments under which these countries operate. Even in the same country, they will differ from one period of time to another. For instance, what economic problems the Nigerian economy faced in the sixties are, in terms of magnitude and complexities, nothing compared with what it is facing today. This introduction has sought to list basic economic problems which are common to most countries, be they African or otherwise, and at any point in time some may be more serious than others.

From the above, it can be seen that the topic of this paper presupposes that African countries are labouring under some forms of economic crises. If this assumption is accepted, then tax administrations in these countries are bound to be affected by such economic crises. This is bound to be so because, tax administrators are not an island unto themselves,

but are rather part and parcel of the economic and social environments under which they perform their work.

It is my intention in this paper to give what I consider to be the aims and purposes of tax administrations generally. Then I will proceed to examine how the economic crises in my country have given rise to the current structural adjustment of the economy called SAP, in popular palance, the pivot on which SAP revolves, the effects of it on our system of tax administration.

Finally I shall endeavour to proffer some measures for strengthening tax administrations during a period of economic crisis.

The Aims and Objectives of Tax Administration

The aims and purposes of tax administration can be summarised as follows:

(i) To collect the proper amount of taxes due by law and accounting for them.

(ii) To advise the responsible minister on tax policies and to implement the policies in those areas when required to do so.

(iii) To provide service to taxpayers.

(iv) To search for new and better ways of doing those things more economically, efficiently and effectively.

In order to achieve these aims and objectives tax administrators will strive to:

(a) ensure that people are fairly and equally treated under the law.

(b) inform, educate and advise the public of their rights and duties under the law as well as any changes in the tax legislations.

(c) encourage and promote mutual trust, co-operation and understanding between them and the taxpayers and their agents.

(d) pursue the collection of taxes which are properly due under the law that is, collect no more and no less than the taxpayer is supposed to pay.

(e) deter and detect tax evasion and avoidance as and when they are spotted.

(f) set clear objectives, allocate responsibility to staff for achieving them and monitor progress and results.

(g) finally devise policies that will guide the staff towards achieving the objectives and targets mapped out for them.

Under normal circumstances and bearing the above in mind, I believe tax administrators would collect the revenue collectible under the law, to help fund the government's work in such very important areas as health care, education and social services. Consequently, the performance of the tax administrators is of crucial interest not only to the government but to the taxpayers themselves.

Under Economic Crisis

When the economist wants to analyse a given situation he uses the expression, "all things being equal". This expression helps to isolate certain variables temporarily, in order to make progress in such an analysis. We all know that all things cannot be equal. We know also that things are not always normal. Since everything is in a state of flux, crisis and change are part and parcel of our personal, social, economic and national life.

There is no doubt that for over a decade or so African countries have been bedeviled with economic crisis.

Some of the economic crisis emanate from:

(i) Poverty leading to inability to feed and provide for the welfare of the citizenry.

(ii) Inability to manage resources fairly, economically and efficiently.

(iii) Unbridled consumption of foreign goods which must be paid for in hard currency.

(iv) Unemployment, primitivity and bad work attitude.

(v) Crushing foreign debts.

(vi) Lack of infrastructure and industrial capacity to generate both capital and consumer goods.

(vii) Absence of technological know-how which is very essential for any meaningful progress in all spheres of human endeavour etc.

Since economic crises hinge on distortions in the production, distribution and consumption of goods and services, they can have a tremendous impact on tax administration. Revenue collection is a function of economic activities, the tax base, tax rates and the quality and effectiveness of tax administration in any given economy. If the economy is healthy and booming, this will reflect in the taxes collected. The nature of economic crises found in the economy, will determine the nature of solution method to be adopted. This informs the reason for African countries adopting one form of structural adjustment programmes or the other that is, some are self-imposed while others are imposed by the International Monetary Fund. The aim is to see how best to turn the economy around, while looking inwards with a view to developing a sense of self-reliance which will, over time, lead to some measure of economic self-dependence.

The Nigerian Situation

The present administration in Nigeria will be mostly remembered for boldly tackling the country's economic crisis, which earlier administrations were shying away from, by its introduction of the structural adjustment programme (SAP). SAP is an economic as well as a social programme which aims at bringing structural changes in the economy thereby reducing or eliminating causes of structural deficiencies or distortions. The programme was anchored on the following economic policy objectives:

1. Realistic Exchange Rate for the Naira: There was need to find a realistic exchange rate for the country's currency in the face of other major world currencies. This led to the introduction of the two tier foreign exchange system in the country, which metamorphosed from SFEM to FEM.

2. Long-term External Debt: The debt burden was heavy and strangulating to the economy. There was need to commence negotiation with our external creditors for a rescheduling space. The country commissioned some agents to determine and collate actual genuine trade debts so as to eliminate or discard spuriousness.

3. Reduction of Dependence on Oil: Prior to the discovery of oil, the Nigerian economy was solidly built on revenue from palm products, cocoa groundnuts etc. The arrival of oil saw a wholesale neglect of these products which were the main stay of the economy. Nigerian's economy thus became a one product economy and could no longer withstand the vagaries of international oil politics. Consequently it became necessary to embark on promotion of export trade in the non-oil sector so as to reduce our dependence on oil income.

4. Privatization of Government owned Companies: It is a known fact that most government owned companies do not perform comparably with their privately owned counterparts. Like overpampere babies, they never grow to maturity. There are a source of wastage of taxpayers money. consequently, a programme of privatization was begun to turn these companies into some going concern by removing them out of the bureaucratic apron of the civil service.

5. Abolition of the Import Licence System: The era saw the discarding of the import license system which was a very big source of corruption and created clogs on the wheel of international trade. Most of the time licences were hawked around by middlemen who were not importers while the real importers never got these licences. The abolition of the system

was followed by dissolution of the marketing boards, abolition of the existing price control mechanism and the market was gradually released from regulation.

6. Control of Money Supply: The country's apex exercised a serious control on the money supply. A monetary policy was adopted with a view to mopping up excess liquidity within the economy. This was aimed at lowering the rate of inflation within the economy.

7. Removal of Petroleum Subsidies: All along the government has been subsidising consumption of products in the country. These were reduced in two steps and right now the desire of the government to remove that bit of the subsidy has been waived, due probably to the outcry of the public.

8. Agricultural & Rural Development Programme: SAP made agriculture a preferred sector. This has led to aggressive agricultural and rural development programmes, opening up new roads, rural electricity and more the rural to the already congested urban centres. SAP was a child of economic crisis which has been with us for so long. The birth of SAP has opened a new frontier in economic activities e.g. maintenance of equipments and tools which hitherto would have been replaced. Following in it's wake is a spirit for the development of maintenance culture.

Change in Tax Policy and System

The impact or effect of any change depends on what is changed. For instance, a structural change in the economy is bound to affect tax policy and the taxation system of that economy, otherwise distortions would continue to

surface. Taxation being a government tool in effecting fiscal measures cannot remain isolated in the bandwagon of the changes, taking place. The changes have taken place in the following areas:

Review of the Nigerian Tax System and Administration

As the structural adjustment fever spread, the government saw the need to review the country's tax system and administration to make it more responsive to the changes taking place in the economy. On 9th January, 1991 a ten man study group was mandated to review the tax system with a view to installing a system which would have the following essential features:

(i) The system must be fair and equitable.

(ii) Must be free of distortions to investment decisions.

(iii) Must encourage a fair allocation of savings between investment opportunities.

(iv) Must not kill incentive to work or for risk taking in business.

(v) The system should attract foreign investments or at least avoid capital flight to countries with lower taxes.

(vi) The system must discourage tax evasion and avoidance and the growth of underground economy and encourage voluntary compliance.

(vii) The system should reduce complexities for both the tax administrators and taxpayers.

The study group was given specific terms of reference and a time frame necessary and sufficient for it to achieve those objectives. The study group has since submitted its reports and government white paper has been drafted on its recommendations. In fact some of the recommendations of the body were incorporated in this year's budget, while the views of the government on the remaining issues are awaited.

Administrative and Structural Changes

In response to the economic crisis and prior to the setting up of the Study group, administrative and structural changes were put in place in our system of tax administration and tax policy. The effect of these changes is improved revenue collection despite the down-turn in the economy. The reason for the improvement is not far to discern. During the era of oil boom, revenue came to government like a fluke - a sort of windfall. The implication here is that sufficient or full attention was not paid to company taxes etc. The decline in oil revenue saw a return to these traditional sources of revenue which had been as it were, neglected. Since the decade, the Board of Inland Revenue has opened up new offices in most of the states of the Federation with a view to reaching a greater percentage of the taxpayers.

Legislative Changes

Taxation, generally speaking is a product of statute. In other words, the tax laws are the veritable tools for effective tax administration. Consequently the economic changes have necessitated the introduction of new tax legislations and the amendment of existing laws, bringing about new taxes and the plugging of known loop holes which encourage evasion. an example is the extension of withholding tax to all business transactions and payments for contracts, consultancy, professional and technical services. Since tax administration is not static, tax laws should be dynamic and flexible so as to respond to changes in the economy. Similarly earlier laws which are

considered obsolete for the contemporary needs of the society have also beem abrogated from the statute books.

Manpower Development

The job of tax administration is a specialised function which requires special training and skill. The training and skill are acquired both locally and overseas. As a result of the economic programmes embarked upon to revive the economy coupled with dwindling foreign exchange receipts, overseas training has almost ceased for nearly a decade. Local training chances have also reduced. There is no doubt that this has affected in no small measure the quality of the output of inspectors of taxes generally. When the economy was booming staff turnover in the Revenue Department was high. Today people stay because of inability to get something better elsewhere. No matter how one looks at it, the economic crisis has brought a mixed grill-blessing in some areas and inescapable hardship in others.

New Assessment Programme

The ultimate goal of a well formulated tax system and administration is voluntary compliance. A developing country such as Nigeria is dynamic and can be aptly described as a nation in a hurry. Similarly a tax system should reflect the socio-economic and political changes taking place in the environment in which it operates. In the fiscal year 1991, Nigeria introduced the self-assessment system to operate paripassu with the government system. The new system shifts the responsibility for arriving at the correct assessment figures from the Tax Department to the taxpayers themselves. Though the response of taxpayers is yet to be measured I believe it is a step in the right direction, and will further promote mutual trust between tax administrators and taxpayers.

Information and Taxpayer Education

All along our tax authority has embarked on taxpayer education on a continuing basis. You will agree with me that the taxpayer of today is becoming more sophisticated, using modern equipments which the tax office may even not afford. The enlightenment programme of today should be aimed at improving the image of tax office, reducing areas of conflict and misunderstanding between taxpayers, their agents and tax officials. Since the effects of the structural adjustments are biting hard on the generality of the people, the tax authority is careful in adopting persuasive rather than coercive approach in reaching taxpayers, so as to avoid unnecessary conflict.

The Use of Tax Clearance Certificate

The down-turn in the economy made revenue officials think of various ways of improving tax collection. Then the idea of the use of tax clearance certificate was born. This is a certificate issued by the Inland Revenue to show that a taxpayer has paid taxes due for the past three assessment years. The presentation of this certificate became a sine qua non for permission to transact business with government and its agencies as well as the organised private sector. Notwithstanding some abuses of the policy, this phenomenon has done much to bring a lot of taxpayers within the tax net. It is being reviewed from time to time.

Need for Computerisation

Part of the fall out of the economic crisis is a realisation of the need to cope with increased work load and the logistics of dealing with area offices located in almost all the states of the Federation, through computerisation of some of the operations of the Revenue Department. Serious efforts are being made in this direction through a World Bank assisted programme. As at now, quotations have been called for from computer hard and soft ware dealers; the

consultants have been shortlisted and the list has been referred to the World Bank which will take a final decision on the matter.

Tax Collection

The Board of Inland Revenue's aggregate tax collection is the barometer for measuring its success and efficiency. In this regard, the tax administration in the country has made an impressive outing. As stated earlier, oil revenue decline led to an overhauling of the tax collection machinery to include intelligence information gathering and exchange of such information for locating hibernating taxpayers. The use of tax clearance certificate, successful public enlightenment programme and stipulation of stiffer penalties for non-payment of taxes and late rendition of returns, worked together to improve the revenue collected. Consequently, the Revenue Board has continued to exceed its annual estimated revenues over the years while at the same time ensuring economy in the cost of collecting such revenue. A tabular chart showing the revenue collection from 1985 to 1989 is attached.

The above constitutes the main areas in which our tax policy and administration have been seriously affected and in which deliberate actions have been taken to ameliorate the impact. Taken all in all, I think it can be said without exaggeration that the situation has been impressively contended with.

One area I need to mention is the issue of tax evasion, and tax avoidance. While tax evasion or tax avoidance cannot be claimed to be a direct result of the economic crisis, one has some bearing on the other. A people subjected to severe deprivation due to harsh economic conditions can hardly be expected to comply voluntarily with tax requirements. On the other hand, taxation should be seen as an instrument of commitment, a symbol of loyalty towards one's society. In Nigeria income tax accounts for about 80% of government's revenue, despite low level of compliance and high level of evasion.

During a symposium held in Nigeria, there was a concensus that among self-employed persons in Nigeria, voluntary compliance is very low. Tax evasion is calculated to be over 50% compared with 14% in UK. However the position is being addressed squarely through the various measures already discussed which have been put in place.

One other area that calls for mention is a stable political environment. The need for political stability in African countries cannot be over-emphasized. For political stability is the bedrock of economic well-being. I have the fear that unless our political masters play well their part, the political wind of change blowing across the world now will compound the present economic crises across the continent. I hope our leaders cannot afford to toil with the destiny of our people. It is hoped therefore that they will choose the part of honour and give democracy a chance to develop.

Measures for Strengthening Tax Administrators During a Period of Economic Crisis

One will need an infallible crystal ball to foresee what such measures can be. This is more so, as economic crises differ from country to country or even within the same country both in magnitude and complexity. However, notwithstanding this, I think I can offer a few suggestions.

1. In my view the first important measure in strengthening tax administrators under a period of economic crisis is equipping them with the requisite knowledge and skill necessary to perform their duties efficiently no matter what the circumstances are. In other words, there is need to provide a congenial environment, adequate training facilities and reward incentives. If well equipped, they will be able to face the challenges of economic crisis by thinking out new ways and manner of solving new problems. Above all, those who exhibit initiative, drive, honesty and competence should be recognised and recommended for national awards.

2. There is need to operate a flexible taxation system. As mentioned earlier, since society is dynamic and eclectic, the tax system adopted, should be flexible so as to respond to changes in the society without undue delay. Unnecessary bottlenecks and delays can rob the government of a big chunk of revenue that should have been collected.

3. There is need to establish a sound planning, research and statistics department as an essential and integral part of a tax administration. The management of revenue boards do not fully appreciate the important job which this department can do

in the area of data collection, target setting and the monitoring of results. Outside consultants can be used in the setting up and training of the staff for this department, as and when necessary, where people with the relevant qualification and skill are not in the Department.

4. Modernisation of the revenue offices, simplification of tax forms, updating and codifying tax laws can form necessary strategies for strengthening tax administrators. Tax laws suffer amendments from year to year and failure to update these laws, creates confusion in the minds of users who have to grope through a maze of additions and deletions to know what the law is.

5. Tax administrators should be given the opportunity of being exposed to the use of the magic ward of the 20th century, the computer. The fear of loss of job should not discourage the need for computerising, if not all, some important areas of the activities of the Revenue Department to make for effectiveness.

6. Above all, African countries can exchange tax information amongst themselves so that tax administrators in one country can benefit from the experience of their counterparts in another. A forum, such as we have here today constitutes a useful avenue for such. Apart from exchange of information, I think it is possible to exchange tax personnel for a period ranging from six months to one year. This makes for sharing experiences as is practiced in multi-national corporations.

7. Finally, tax administrators should strive hard to improve both their personal image and that of their establishment. A good image can be a source of immense strength in itself when

facing economic crisis. Such an image can act as a social lubricant in the mutual relatively between the tax administrator and the taxpayer, particularly during period of economic crisis when tax payers are labouring under economic hardship and constraints, resulting from government measures.

Mr. Chairman, Ladies and Gentlemen, I think I should stop here to give you time to ruminate over the points. I would like to thank you all for the privilege of your listening to me. If the paper has not measured up to your expectation, please bear with me, for the period given to me to produce it was so short that I have chosen to discuss those issues which struck my mind.

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6. Readings on Income Tax Administration edited by Kelley and Oldman, Harvard Law School International Tax Programme, 1973.

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FEDERAL BOARD OF INLAND REVENUE
FIVE YEARS COLLECTION 1985-1989

TYPES OF TAXES	1985	1986	1987	1988	1989
SALES TAX	-	-	255,459	881,769	2,673,278
COMP. INC. TAX	1,004,305,429	1,109,325,373	111,840,764	1,369,389,134	1,624,292,759
BACK DUTY PEN	-	-	528	116	641,782
PETROL PROFIT TAX	6,719,631,464	4,899,456,300	12,186,459,053	12,590,711,976	23,835,584,097
CAPITAL GAIN TAX	1,978,324	1,396,825	6,825,807	6,846,516	12,822,724
COMP. SUPER TAX ARREARS	-	-	-	-	-
PERSONAL INCOME TAX	12,862,433	13,727,552	10,974,893	13,209,226	12,145,758
STAMP DUTIES	20,571,267	23,434,109	27,255,194	38,561,742	135,458,661
PER. INC. TAX ABUJA	2,230,712	1,045,462	1,970,951	3,267,565	3,174,397
OVERSEAS TRAVEL LEVY	33,249,480	31,682,930	-	-	-
COMPANIES PRE-OPERATION LEVY	3,626,279	3,345,132	1,581,902	2,453,400	2,697,397
NATIONAL ECON. RECOVERY FUND	-	256,186,783	23,155,363	1,670,029	428,472
GRAND TOTAL	7,798,455,388	6,340,600,466	12,371,319,914	14,026,991,473	25,629,919,325